Introduction

Debt Management is an important component of a large city's financial management practices. Cities use the option of debt financing to pay for large projects, such as public buildings, parks, infrastructure, and open space acquisition, when paying for these projects out of current revenues would be impractical. For a large debt issuer, like the City of San Diego, good debt management is important to ensure that: 1) the amount of debt issued by the City is affordable given the City's anticipated revenue levels and operating needs; 2) the City issues the kinds of debt appropriate to given projects at the lowest possible interest cost; and 3) the City issues debt in compliance with all relevant laws and regulations.

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Credit Rating

The City of San Diego's General Obligation Bond rating, AAA/Aa1/AA, reflects the City's strong overall credit rating. These ratings were awarded to the City by Fitch Ratings, Moody's Investors Service, and Standard & Poor's Corporation, respectively. Credit ratings are designations that provide a relative indication of credit quality, with AAA/Aaa/AAA being the highest achievable rating. Fitch Ratings upgraded the City's rating from AA+ to AAA in May 2002, making San Diego the only large city in California with a AAA rating. Factors contributing to the City's high ratings include its strong economic performance, a diversified tax base, favorable debt ratios, and sound financial operations and reporting.

Long-Term Financing Techniques

General Obligation Bonds – Under the California Constitution, the City may issue General Obligation Bonds subject to the approval of two-thirds of those voting on the bond proposition. General Obligation Bonds represent an indebtedness of the City secured by its full faith and credit. An ad valorem tax on real property is levied to pay principal and interest on General Obligation Bonds.

Lease Revenue Bonds and Certificates of Participation – Under State law, the City may also enter into long-term lease obligations without obtaining voter approval. Lease Revenue Bonds and Certificates of Participation are lease obligations secured by an installment sale agreement or by a lease-back arrangement with a public entity, where the general operating revenues are pledged to pay the lease payments, which are, in turn, used to pay debt service on the bonds or Certificates of Participation. These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval. Payments to be made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease payments may not be accelerated. The governmental lessee is obligated to place in its annual budget the rentals that are due and payable during each fiscal year the lessee has use of the leased property.

Revenue Bonds – Revenue Bonds are payable solely from net or gross non ad valorem tax revenues derived from General Fund revenues, tax increment revenues, rates or tolls, or fees, charges or rents paid by users of the facility constructed with the proceeds of the bond issue.

Special Assessment/Mello Roos Bonds – Under various sections of State law, the City may establish assessment or Mello Roos districts and issue bonds for infrastructure improvements. The bonds are secured solely by the properties in the district, with revenues generated by a special assessment or tax on the properties. The table that follows summarizes the outstanding General Obligation bonded indebtedness of the City, as well as outstanding Lease Revenue Bonds, Certificates of Participation, and Revenue Bonds, showing the debt payment for each issue for Fiscal Year 2004, the department where these funds are budgeted, and the funding source.

Summary of Debt Obligations

	PRINCIPAL OUTSTANDING 6/30/2003	FISCAL YEAR 2004 BOND PAYMENT	BUDGET DEPARTMENT	FUNDING SOURCE
General Obligation Bonds				
1991 Public Safety Communications	$15,690,000	$2,348,785	Bond Interest & Redemption	Property Tax
1994 Open Space Park Refunding	$36,475,000	$7,176,418	Park & Rec/Open Space	Property Tax and Franchise Fees
Subtotal General Obligation Bonds	**$52,165,000**	**$9,525,203**		
General Purpose Revenue Obligations				
Certificates of Participation				
1996A Balboa Park/Mission Bay Park Improvements	$22,880,000	$3,460,858	Engin/Public Bldgs & Parks	Transient Occupancy Tax
1996B Balboa Park/Mission Bay Park Improvements	$10,150,000	$877,610	Engin/Public Bldgs & Parks	Transient Occupancy Tax
2003 Balboa Park/Mission Bay Park Refunding	$17,425,000	$909,640	Engin/Public Bldgs & Parks	Transient Occupancy Tax
Lease Revenue Bonds				
1994 City/MTDB Authority Refunding - Bayside Trolley Extension	$28,320,000	$2,927,203	Trolley Extension Reserve	Transient Occupancy Tax
1994 City/MTDB Authority Refunding - Police Improvements	included above	$5,012,893	Police Decentralization	Land Sales/Sales Tax
1996 Qualcomm Stadium Improvements	$63,945,000	$5,768,728	Qualcomm Stadium	Stadium Revenues
1998 Convention Center Expansion Authority	$196,810,000	$13,699,415	Convention Center Complex	Transient Occupancy Tax
2002A Ballpark and Redevelopment Project[(1)]	$169,685,000	$4,559,092	Ballpark Facility	Transient Occupancy Tax
2002B Fire-Rescue Department Facilities Project	$25,070,000	$1,649,758	Fire-Rescue Department	Safety Sales Tax
2003 City/MTDB Authority Refunding - Old Town Trolley Extension	$15,255,000	$810,825	Trolley Extension Reserve	Transient Occupancy Tax
Subtotal General Purpose Revenue Obligations	**$549,540,000**	**$39,676,022**		
Total General Obligation/General Purpose Revenue Obligations	**$601,705,000**	**$49,201,225**		
Non-General Fund Commitments				
Sewer Improvements				
1993 Sewer Revenue Bonds	$201,655,000	$16,319,101	Metropolitan Wastewater	Net Sewer System Revenues
1995 Sewer Revenue Bonds	$309,225,000	$23,583,716	Metropolitan Wastewater	Net Sewer System Revenues
1997 Sewer Revenue Bonds	$224,130,000	$16,636,098	Metropolitan Wastewater	Net Sewer System Revenues
1999 Sewer Revenue Bonds	$296,235,000	$20,511,508	Metropolitan Wastewater	Net Sewer System Revenues
Water Improvements				
1998 Water Certificates of Undivided Interest	$294,010,000	$21,354,825	Water	Net Water System Revenues
2002 Subordinated Water Revenue Bonds	$286,945,000	$13,506,433	Water	Net Water System Revenues
Total Non-General Fund Commitments	**$1,612,200,000**	**$111,911,681**		

(1) Total bond payment is net of that portion that will be funded with capitalized interest

Legal Debt Limits

Under Section 90 of the City Charter, the City may issue bonds for the purpose of acquiring, constructing, or completing any municipal improvements, not including improvements to the City's water facilities, in an amount not to exceed 10 percent of the total assessed valuation of all real and personal property in the City subject to an annual property tax levy. The City may also issue bonds for the purpose of acquiring, constructing, or completing water facilities in an amount not to exceed 15 percent of the total assessed valuation of all real and personal property in the City subject to an annual property tax levy. The combined limit on outstanding indebtedness for both non-utility related improvements and water related improvements is an amount not to exceed 25 percent of the total assessed valuation.

It should be noted that it has been the City's practice, as provided for in Section 90.1 of the City Charter, to issue Revenue Bonds for the purpose of constructing water facilities. Per Section 90.1, Revenue Bonds do not constitute an indebtedness of the City, but an obligation payable from the revenues received by the utility. Section 90.2 authorizes the issuance of Revenue Bonds for the purpose of constructing improvements to the City's sewer system.

As of June 30, 2002, the City of San Diego's legal debt limit totaled $6.2 billion. The following table outlines the City's legal debt margin as of June 30, 2002.

Statement of Legal Debt Margin – June 30, 2002
(In Thousands of Dollars)

	General Obligation Bonds*		
	For Water Purposes	For Other Purposes	Total
Assessed Valuation: July 1, 2002 – $25,076,122**			
Debt Limits***	$3,761,418	$2,507,612	$6,269,030
Outstanding General Obligation Bonds	0	16,920	16,920
Less: Cash Reserve for Matured and Unpaid Bonds	0	0	0
Outstanding General Obligation Bonds Applicable to Debt Limit	0	16,920	16,920
LEGAL DEBT MARGIN	**$3,761,418**	**$2,490,692**	**$6,252,110**
Percentage of Outstanding Debt to Debt Limit	0.00%	0.68%	0.27%

* All City of San Diego General Obligation Bonds are serially numbered and redeemable from special tax levy.

** Beginning January 1, 1981, a change in State law required the County Assessor to assess all taxable property at 100% of full value as opposed to the prior practice of assessing property at 25% of full value. To be in compliance with the City Charter, the assessed valuation used for this Statement is at 25% of full value.

*** Section 90 of the City Charter provides that the bonded indebtedness for the development, conservation and furnishings of water shall not exceed 15% of the last preceding assessed valuation of all real and personal property of the City subject to direct taxation and that the bonded indebtedness for other municipal improvements shall not exceed 10% of such valuation.

Source: City of San Diego Comprehensive Annual Financial Report for the Fiscal Year Ending June 30, 2002, Page 138.

Short-Term Borrowings

The City has issued Tax Anticipation Notes (TANS) since Fiscal Year 1968 (except for Fiscal Year 1979) to remedy periodic General Fund cash flow deficits. In June 2003, the City issued $110.9 million in TANS for Fiscal Year 2004. The issuance received ratings of F1+/MIG1/SP1+ from Fitch Ratings, Moody's Investors Service and Standard & Poor's Corporation, respectively, the highest possible short-term ratings from all three agencies. The City has never defaulted on any short-term bonded indebtedness issued.

Assessment District Financing Policy

The City Council adopted a formal Special District Financing policy which governs the financing of public infrastructure through the use of Special Assessment and Mello Roos Community Facility districts. The policy consists of guidelines/requirements for:

- Determining which public facilities qualify for financing
- Initiating district formation proceedings
- Providing impacted property owners with sufficient and appropriate disclosure relating to proposed special districts
- Evaluating the financial feasibility of a proposed special district financing
- Determining and apportioning assessments or special taxes
- Reimbursing the City for all necessary costs associated with the evaluation, establishment, and administration of special districts

The City has issued special assessment bonds on behalf of developers. These bonds are secured by property owner assessments. Although the City is not obligated to make debt service payments on special assessment bonds, the City has, when necessary, taken proactive measures to help protect the interests of Assessment District bondholders.